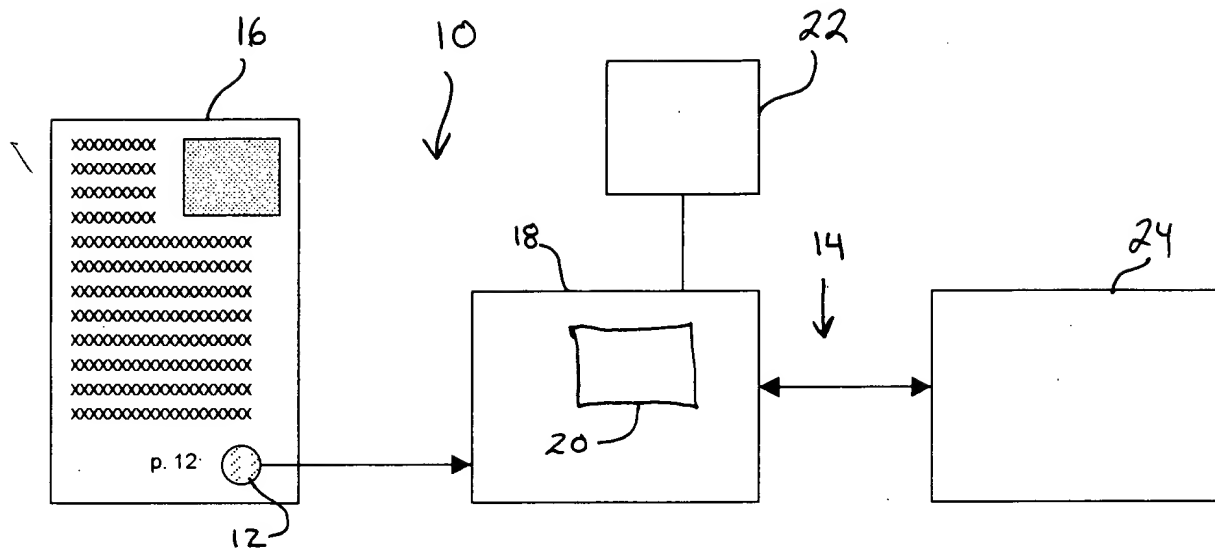


Figure 1



Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100
1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	

25.2 WHY LEASE?

You hear many suggestions about why companies should lease equipment rather than buy it. Let us look at some sensible reasons and then at four more dubious ones.

Sensible Reasons for Leasing

Short-Term Leases Are Convenient Suppose you want the use of a car for a week. You could buy one and sell it seven days later, but that would be silly. Quite apart from the fact that registering ownership is a nuisance, you would spend some time selecting a car, negotiating purchase, and arranging insurance. Then at the end of the week you would negotiate resale and cancel the registration and insurance. When you need a car only for a short time, it clearly makes sense to rent it. You save the trouble of registering ownership, and you know the effective cost. In the same way, it pays a company to lease equipment that it needs for only a year or two. Of course, this kind of lease is always an operating lease.

Sometimes the cost of short-term rentals may seem prohibitively high, or you may find it difficult to rent at any price. This can happen for equipment that is easily damaged by careless use. The owner knows that short-term users are unlikely to take the same care they would with their own equipment. When the danger of abuse becomes too high, short-term rental markets do not survive. Thus, it is easy enough to buy a Lamborghini Diablo, provided your pockets are deep enough, but nearly impossible to rent one.

Cancellation Options Are Valuable Some leases that *appear* expensive really are fairly priced once the option to cancel is recognized. We return to this point in the next section.

Maintenance Is Provided Under a full-service lease, the user receives maintenance and other services. Many lessors are well equipped to provide efficient maintenance. However, bear in mind that these benefits will be reflected in higher lease payments.

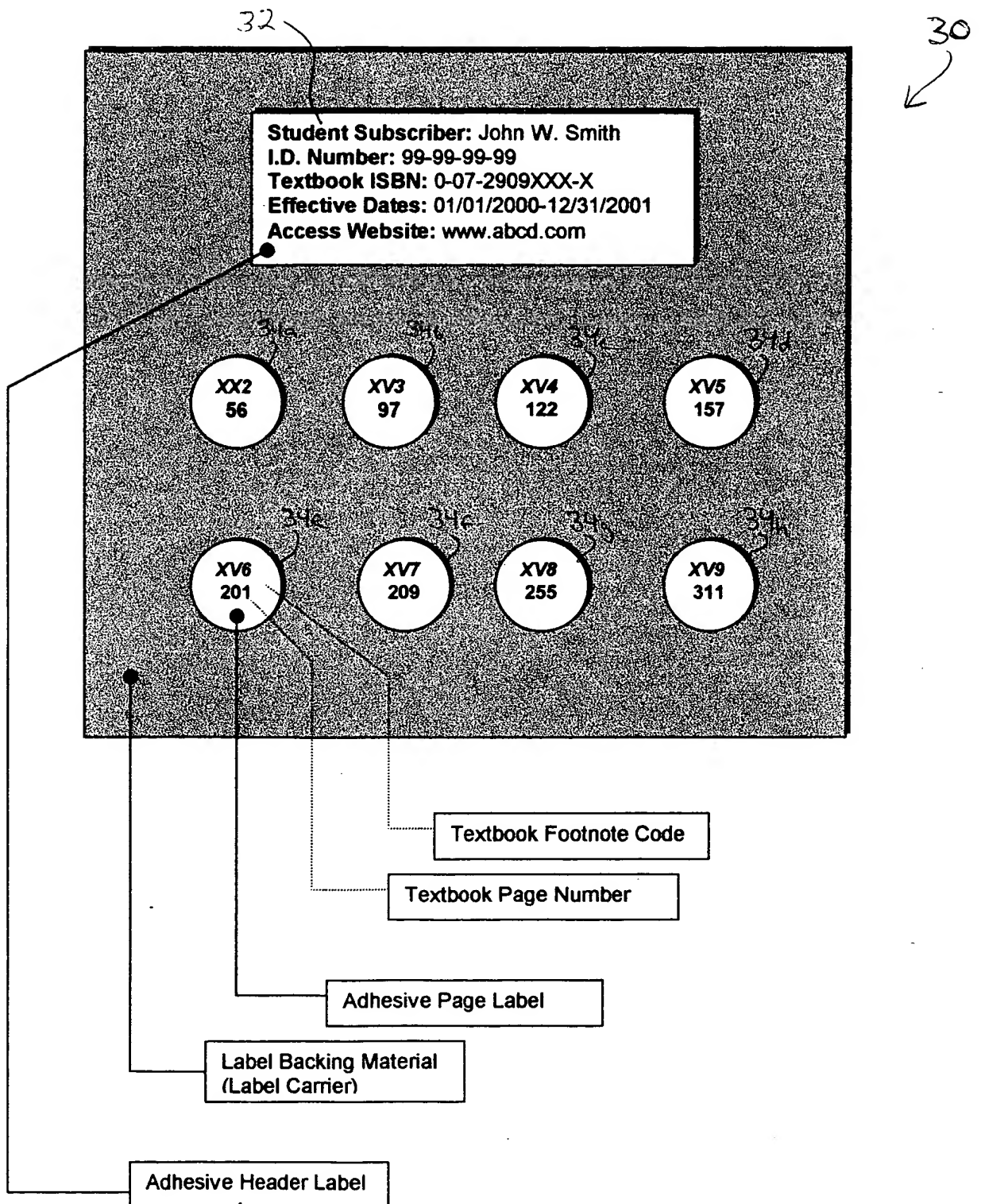
Standardization Leads to Low Administrative and Transaction Costs Suppose that you operate a leasing company which specializes in financial leases for trucks. You are effectively lending money to a large number of firms (the lessees) which may differ considerably in size and risk. But, because the underlying asset is in each case the same saleable item (a truck), you can safely "lend" the money (lease the truck) without conducting a detailed analysis of each firm's business. You can also use a simple, standard lease contract. This standardization makes it possible to "lend" small sums of money without incurring large investigative, administrative, or legal costs.

For these reasons leasing is often a relatively cheap source of cash for the small company. It offers financing on a flexible, piecemeal basis, with lower transaction costs than in a private placement or a public bond or stock issue.

Tax Shields Can Be Used The lessor owns the leased asset and deducts its depreciation from taxable income. If the lessor can make better use of depreciation

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FIG. 3



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FIG. 4

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


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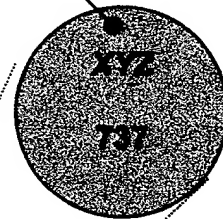


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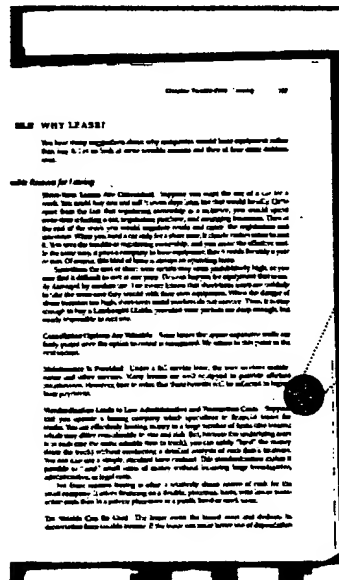
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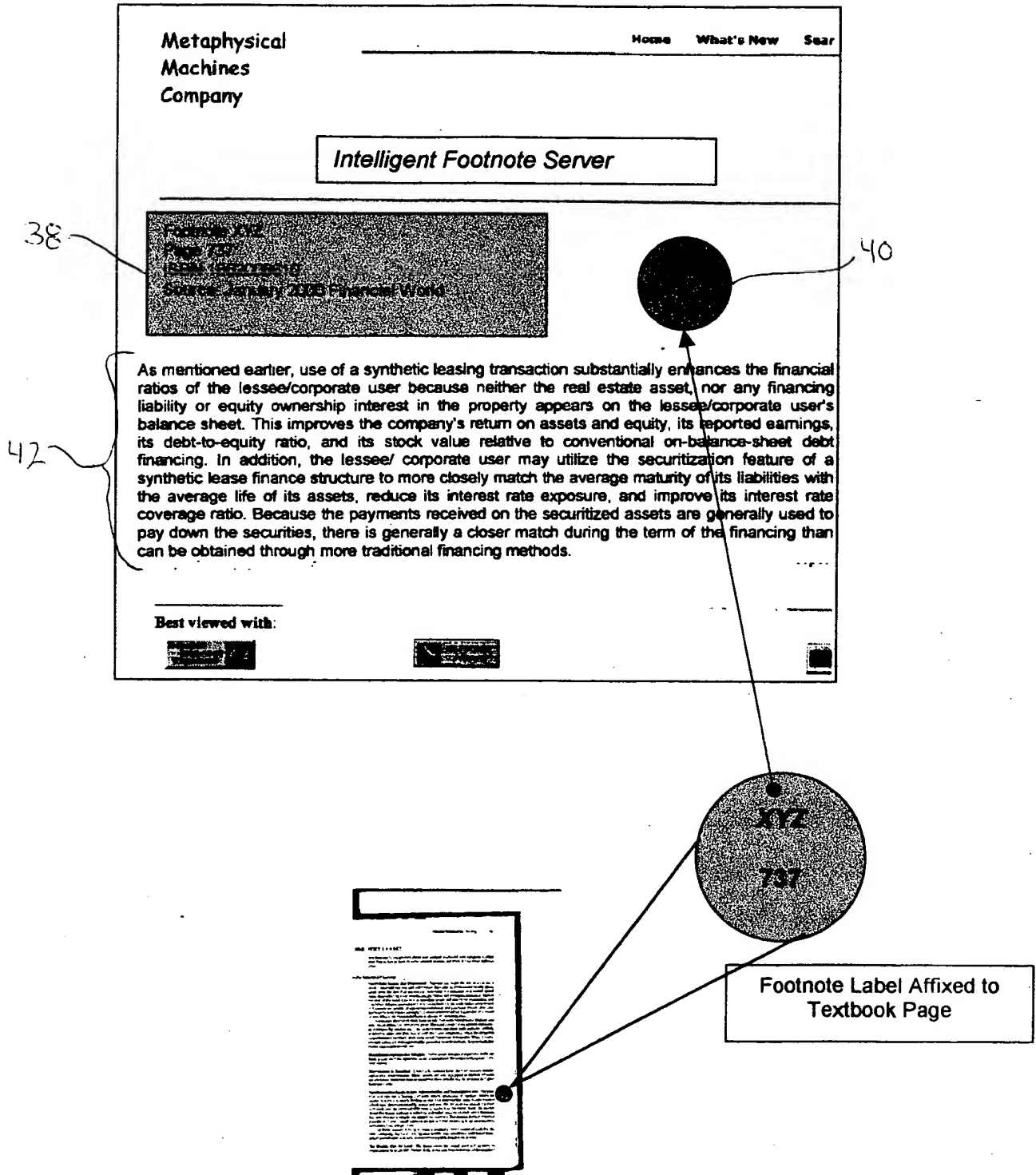
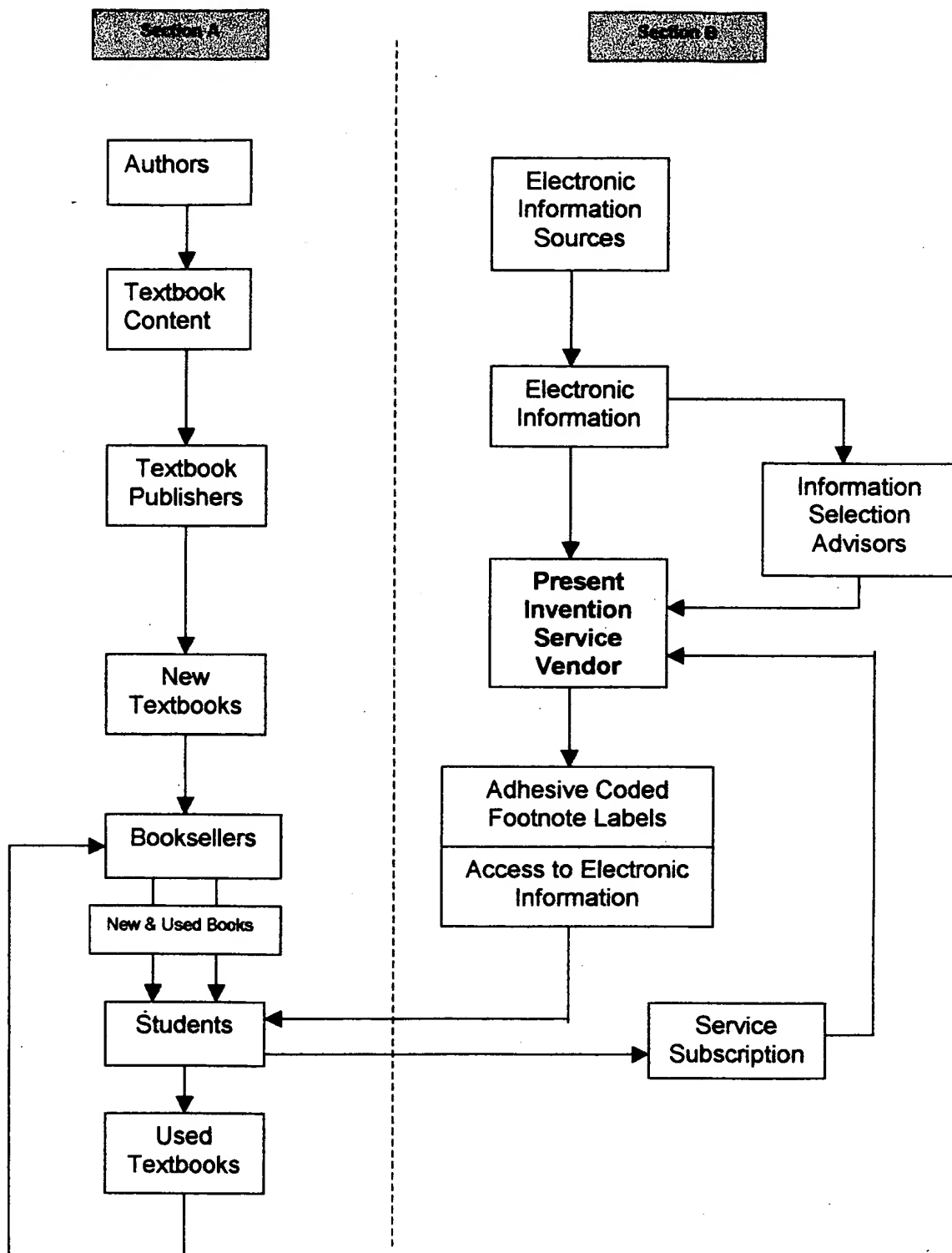


FIG. 6



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FIG. 7

